NET BUDGETING AT STATE RESOURCE CENTERS

Background

Traditional Facility Funding:

The majority of State facilities are funded in the traditional method with up front annual state appropriations and salary adjustments meeting the projected budget. Payments for services are billed to responsible parties other than the state and are received by and credited to the general fund.

Net Budgeting:

Net budgeting was developed as a funding strategy whereby the up front annual state appropriation consists of only the estimated state share. The facility then has the responsibility to meet the remainder of their projected budget need through billing and collection for services rendered.

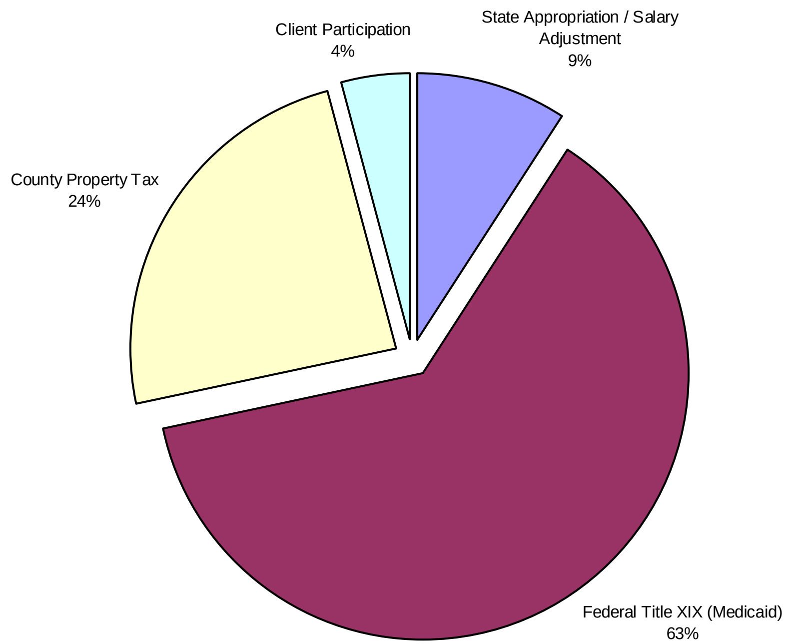
Net budgeting for DHS facilities began with the State Resource Centers in 1998. This funding strategy is more workable at the Resource Centers due to the relatively small percentage of State funds comprising their annual budget. Approximately 8% – 12% of their budget is State responsibility, the remainder is comprised of payments from Federal Title XIX (Medicaid), County property tax and a small amount of client participation.

In addition to the Resource Centers, the PMIC unit at Independence MHI and the Dual Diagnosis unit at Mt. Pleasant MHI also operate under net budgeting.

The State Appropriation is to cover:

- Non Federal share of Medicaid for adults without a county of legal settlement
- Non Federal share of Medicaid for children / adolescents under 18 years of age
- The difference between the capped county rate and the non federal share of Medicaid for adults with a county of legal settlement

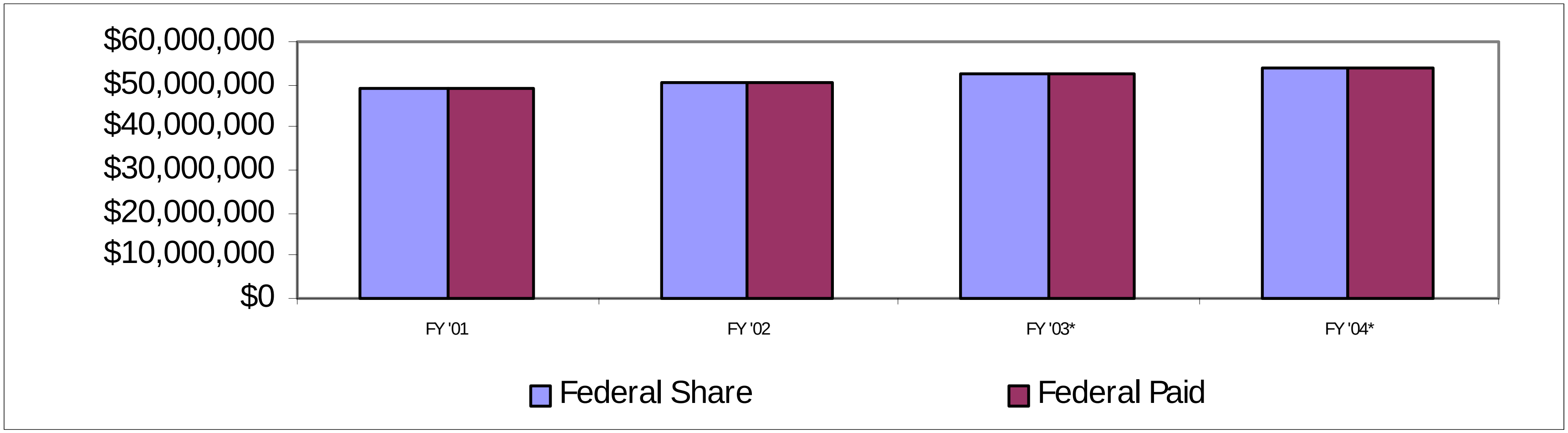
Resource Center Operating Budget Primary Revenue Sources



Collection Rates By Source – Federal Medicaid

Federal Share of Annual Costs (Billed) / Federal Share Collected

The Federal portion of costs are collected at 100% of the amount billed. The only change in the Federal portion of the cost is the annual fluctuation in the Federal Financial Participation rate (FFP).

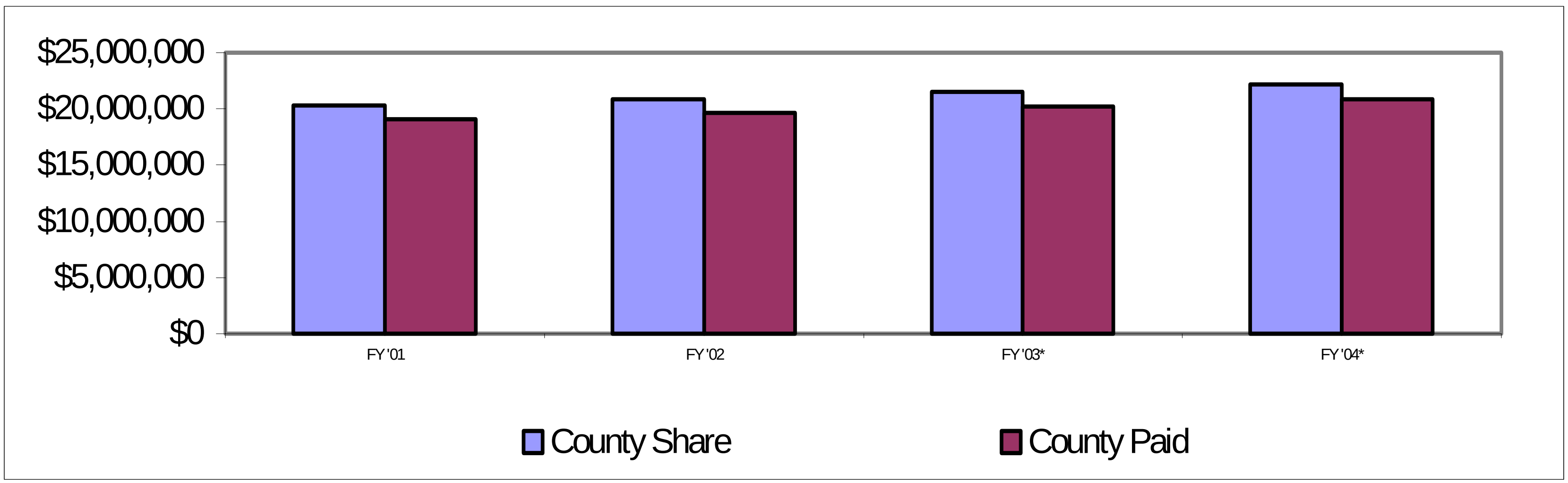


Collection Rates By Source – County Payments

County Share of Annual Costs (Billed) / County Share Collected

Counties are responsible for the non federal share (up to the capped rate) of the costs for adults who have legal settlement.

The County share of the costs billed are collected at a rate of 94% to 98%. The fluctuation in the collection rate is a reflection of the number of legal settlement or other types of billing disputes that are unresolved.



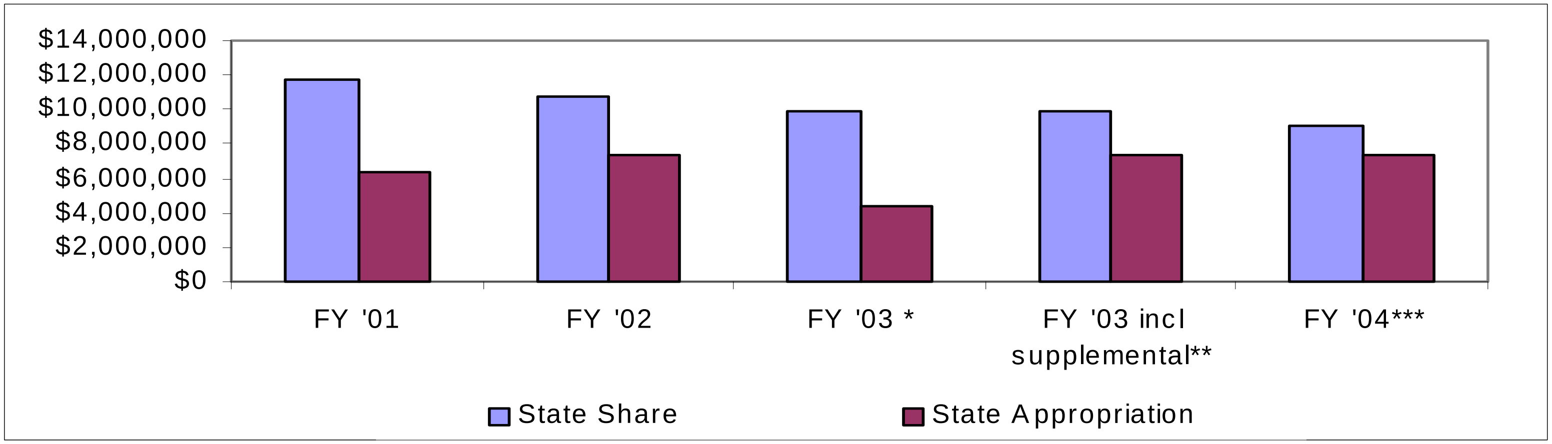
Collection Rates By Source – State Funding

State Share of Annual Costs / State Share Collected (State appropriation and salary adjustment)
By Iowa Code the State is responsible for:

- The non Federal share of Medicaid for children and adolescents under 18 years of age
- The non Federal share of Medicaid for adults without a county of legal settlement
- The difference between the Federal share of Medicaid and the capped county rate for adults with a county of legal settlement

The difference between the state share of costs and the appropriated amounts are due to:

- Appropriation reductions
- Under funded salary adjustment



* State appropriation and salary adjustment prior to the supplemental appropriations.
**Fiscal year 2003 projection includes state appropriation and salary adjustment plus the budget supplemental and the DOJ supplemental appropriation
***Fiscal year 2004 projection represents the Governor's recommended appropriation, does not include a salary adjustment

In order for a facility on net budgeting to operate efficiently, as with any business, it has to maintain a steady flow of revenues from all of its customers that are consistent with the cost of the services that are being provided.

NUANCES OF NET BUDGETING:

Action	Traditional Budgeting Strategies	Net Budgeting
Reduction of State funding	Reductions are met by reducing staffing and support expenditures and reducing bed capacity as necessary. The facility can then stabilize at the funded level.	Reductions in support and staffing meet short term budget requirements but the reduced expenditures result in a lower rate (per diem) calculation that results in even further reduced revenues in ensuing billing cycles creating a difficult to reverse downward spiral.
Capacity reduction	May require fewer staff and allow for an appropriation decrease. There are no long term fiscal effects.	Short term loss of non State revenue collected. Expenditure and revenues will regain balance in next billing rate cycle. Long term state savings*
Capacity increase	May require appropriation increases for staffing and support	Short term gain in non State revenue collected from additional residents. Expenditure and revenues will regain balance in next billing rate cycle. Long term additional state cost.*

*The State is currently responsible for a portion of the cost of all Resource Center residents. The percentage they are responsible for is established by Iowa Code and is dependent upon the type of resident, i.e. child or adult, adult with legal settlement in a county or an adult without legal settlement.